



Senate

General Assembly

File No. 124

February Session, 2014

Substitute Senate Bill No. 232

Senate, March 26, 2014

The Committee on Commerce reported through SEN. LEBEAU of the 3rd Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

AN ACT CONCERNING THE MANUFACTURING REINVESTMENT ACCOUNT PROGRAM.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. Subsection (b) of section 32-9zz of the general statutes is
2 repealed and the following is substituted in lieu thereof (*Effective July*
3 *1, 2014*):

4 (b) The Department of Economic and Community Development
5 shall establish criteria and guidelines to select not more than [one
6 hundred] fifty manufacturers that may establish a reinvestment
7 account pursuant to subsection (c) of this section. Such criteria shall
8 include, but not be limited to, a requirement that any such
9 manufacturer shall have not more than one hundred fifty employees.
10 The department shall, based on the criteria established pursuant to this
11 subsection, establish an ongoing list of selected manufacturers.

12 Sec. 2. Subdivision (9) of subsection (a) of section 12-213 of the
13 general statutes is repealed and the following is substituted in lieu

14 thereof (*Effective July 1, 2014, and applicable to income years commencing*
15 *on or after January 1, 2014*):

16 (9) (A) "Gross income" means gross income, as defined in the
17 Internal Revenue Code, and, in addition, means any interest or exempt
18 interest dividends, as defined in Section 852(b)(5) of the Internal
19 Revenue Code, received by the taxpayer or losses of other calendar or
20 fiscal years, retroactive to include all calendar or fiscal years beginning
21 after January 1, 1935, incurred by the taxpayer which are excluded
22 from gross income for purposes of assessing the federal corporation
23 net income tax, and in addition, notwithstanding any other provision
24 of law, means interest or exempt interest dividends, as defined in said
25 Section 852(b)(5) of the Internal Revenue Code, accrued on or after the
26 application date, as defined in section 12-242ff, with respect to any
27 obligation issued by or on behalf of the state, its agencies, authorities,
28 commissions and other instrumentalities, or by or on behalf of its
29 political subdivisions and their agencies, authorities, commissions and
30 other instrumentalities;

31 (B) "Gross income" shall include, [(i) to the extent not properly
32 includable in gross income for federal income tax purposes, an amount
33 equal to fifty per cent of any distribution from a manufacturing
34 reinvestment account used in accordance with subsection (c) of section
35 32-9zz to the extent that a contribution to such account was subtracted
36 from gross income pursuant to subparagraph (F) of subdivision (1) of
37 subsection (a) of section 12-217 in computing net income for the
38 current or a preceding income year, and (ii)] to the extent not properly
39 includable in gross income for federal income tax purposes, an amount
40 equal to [(I)] (i) any distribution from a manufacturing reinvestment
41 account not used in accordance with subdivision (3) of subsection (c)
42 of section 32-9zz to the extent that a contribution to such account was
43 subtracted from gross income pursuant to subparagraph (F) of
44 subdivision (1) of subsection (a) of section 12-217 in computing net
45 income for the current or a preceding income year, and [(II)] (ii) any
46 return of money from a manufacturing reinvestment account pursuant
47 to subsection (d) of section 32-9zz to the extent that a contribution to

48 such account was subtracted from gross income pursuant to
49 subparagraph (F) of subdivision (1) of subsection (a) of section 12-217
50 in computing net income for the current or a preceding income year;

51 (C) "Gross income" shall not include the amount which for federal
52 income tax purposes is treated as a dividend received by a domestic
53 United States corporation from a foreign corporation on account of
54 foreign taxes deemed paid by such domestic corporation, when such
55 domestic corporation elects the foreign tax credit for federal income
56 tax purposes;

57 (D) "Gross income" shall not include any amount which for federal
58 income tax purposes is treated as a dividend received directly or
59 indirectly by a taxpayer from a passive investment company;

60 Sec. 3. Subdivision (20) of subsection (a) of section 12-701 of the
61 general statutes is repealed and the following is substituted in lieu
62 thereof (*Effective July 1, 2014, and applicable to taxable years commencing*
63 *on or after January 1, 2014*):

64 (20) "Connecticut adjusted gross income" means adjusted gross
65 income, with the following modifications:

66 (A) There shall be added thereto (i) to the extent not properly
67 includable in gross income for federal income tax purposes, any
68 interest income from obligations issued by or on behalf of any state,
69 political subdivision thereof, or public instrumentality, state or local
70 authority, district or similar public entity, exclusive of such income
71 from obligations issued by or on behalf of the state of Connecticut, any
72 political subdivision thereof, or public instrumentality, state or local
73 authority, district or similar public entity created under the laws of the
74 state of Connecticut and exclusive of any such income with respect to
75 which taxation by any state is prohibited by federal law, (ii) any
76 exempt-interest dividends, as defined in Section 852(b)(5) of the
77 Internal Revenue Code, exclusive of such exempt-interest dividends
78 derived from obligations issued by or on behalf of the state of
79 Connecticut, any political subdivision thereof, or public

80 instrumentality, state or local authority, district or similar public entity
81 created under the laws of the state of Connecticut and exclusive of
82 such exempt-interest dividends derived from obligations, the income
83 with respect to which taxation by any state is prohibited by federal
84 law, (iii) any interest or dividend income on obligations or securities of
85 any authority, commission or instrumentality of the United States
86 which federal law exempts from federal income tax but does not
87 exempt from state income taxes, (iv) to the extent included in gross
88 income for federal income tax purposes for the taxable year, the total
89 taxable amount of a lump sum distribution for the taxable year
90 deductible from such gross income in calculating federal adjusted
91 gross income, (v) to the extent properly includable in determining the
92 net gain or loss from the sale or other disposition of capital assets for
93 federal income tax purposes, any loss from the sale or exchange of
94 obligations issued by or on behalf of the state of Connecticut, any
95 political subdivision thereof, or public instrumentality, state or local
96 authority, district or similar public entity created under the laws of the
97 state of Connecticut, in the income year such loss was recognized, (vi)
98 to the extent deductible in determining federal adjusted gross income,
99 any income taxes imposed by this state, (vii) to the extent deductible in
100 determining federal adjusted gross income, any interest on
101 indebtedness incurred or continued to purchase or carry obligations or
102 securities the interest on which is exempt from tax under this chapter,
103 (viii) expenses paid or incurred during the taxable year for the
104 production or collection of income which is exempt from taxation
105 under this chapter or the management, conservation or maintenance of
106 property held for the production of such income, and the amortizable
107 bond premium for the taxable year on any bond the interest on which
108 is exempt from tax under this chapter to the extent that such expenses
109 and premiums are deductible in determining federal adjusted gross
110 income, (ix) for property placed in service after September 10, 2001, but
111 prior to September 11, 2004, in taxable years ending after September
112 10, 2001, any additional allowance for depreciation under subsection
113 (k) of Section 168 of the Internal Revenue Code, as provided by Section
114 101 of the Job Creation and Worker Assistance Act of 2002, to the

115 extent deductible in determining federal adjusted gross income, (x) to
116 the extent deductible in determining federal adjusted gross income, the
117 deduction allowable as qualified domestic production activities
118 income, pursuant to Section 199 of the Internal Revenue Code, (xi) to
119 the extent not properly includable in gross income for federal income
120 tax purposes for the taxable year, any income from the discharge of
121 indebtedness, in taxable years ending after December 31, 2008, in
122 connection with any reacquisition, after December 31, 2008, and before
123 January 1, 2011, of an applicable debt instrument or instruments, as
124 those terms are defined in Section 108 of the Internal Revenue Code, as
125 amended by Section 1231 of the American Recovery and Reinvestment
126 Act of 2009, the inclusion of which income in federal gross income for
127 the taxable year is deferred, as provided by said Section 1231; [(xii) to
128 the extent not properly includable in gross income for federal income
129 tax purposes, an amount equal to fifty per cent of any distribution
130 from a manufacturing reinvestment account used in accordance with
131 subdivision (3) of subsection (c) of section 32-9zz to the extent that a
132 contribution to such account was subtracted from federal adjusted
133 gross income pursuant to clause (xix) of subparagraph (B) of this
134 subdivision in computing Connecticut adjusted gross income for the
135 current or a preceding taxable year; and (xiii)] and (xii) to the extent
136 not properly includable in gross income for federal income tax
137 purposes, an amount equal to (I) any distribution from a
138 manufacturing reinvestment account not used in accordance with
139 subdivision (3) of subsection (c) of section 32-9zz to the extent that a
140 contribution to such account was subtracted from federal adjusted
141 gross income pursuant to clause (xix) of subparagraph (B) of this
142 subdivision in computing Connecticut adjusted gross income for the
143 current or a preceding taxable year, and (II) any return of money from
144 a manufacturing reinvestment account pursuant to subsection (d) of
145 section 32-9zz to the extent that a contribution to such account was
146 subtracted from federal adjusted gross income pursuant to clause (xix)
147 of subparagraph (B) of this subdivision in computing Connecticut
148 adjusted gross income for the current or a preceding taxable year.

149 (B) There shall be subtracted therefrom (i) to the extent properly

150 includable in gross income for federal income tax purposes, any
151 income with respect to which taxation by any state is prohibited by
152 federal law, (ii) to the extent allowable under section 12-718, exempt
153 dividends paid by a regulated investment company, (iii) the amount of
154 any refund or credit for overpayment of income taxes imposed by this
155 state, or any other state of the United States or a political subdivision
156 thereof, or the District of Columbia, to the extent properly includable
157 in gross income for federal income tax purposes, (iv) to the extent
158 properly includable in gross income for federal income tax purposes
159 and not otherwise subtracted from federal adjusted gross income
160 pursuant to clause (x) of this subparagraph in computing Connecticut
161 adjusted gross income, any tier 1 railroad retirement benefits, (v) to the
162 extent any additional allowance for depreciation under Section 168(k)
163 of the Internal Revenue Code, as provided by Section 101 of the Job
164 Creation and Worker Assistance Act of 2002, for property placed in
165 service after December 31, 2001, but prior to September 10, 2004, was
166 added to federal adjusted gross income pursuant to subparagraph
167 (A)(ix) of this subdivision in computing Connecticut adjusted gross
168 income for a taxable year ending after December 31, 2001, twenty-five
169 per cent of such additional allowance for depreciation in each of the
170 four succeeding taxable years, (vi) to the extent properly includable in
171 gross income for federal income tax purposes, any interest income
172 from obligations issued by or on behalf of the state of Connecticut, any
173 political subdivision thereof, or public instrumentality, state or local
174 authority, district or similar public entity created under the laws of the
175 state of Connecticut, (vii) to the extent properly includable in
176 determining the net gain or loss from the sale or other disposition of
177 capital assets for federal income tax purposes, any gain from the sale
178 or exchange of obligations issued by or on behalf of the state of
179 Connecticut, any political subdivision thereof, or public
180 instrumentality, state or local authority, district or similar public entity
181 created under the laws of the state of Connecticut, in the income year
182 such gain was recognized, (viii) any interest on indebtedness incurred
183 or continued to purchase or carry obligations or securities the interest
184 on which is subject to tax under this chapter but exempt from federal

185 income tax, to the extent that such interest on indebtedness is not
186 deductible in determining federal adjusted gross income and is
187 attributable to a trade or business carried on by such individual, (ix)
188 ordinary and necessary expenses paid or incurred during the taxable
189 year for the production or collection of income which is subject to
190 taxation under this chapter but exempt from federal income tax, or the
191 management, conservation or maintenance of property held for the
192 production of such income, and the amortizable bond premium for the
193 taxable year on any bond the interest on which is subject to tax under
194 this chapter but exempt from federal income tax, to the extent that
195 such expenses and premiums are not deductible in determining federal
196 adjusted gross income and are attributable to a trade or business
197 carried on by such individual, (x) (I) for a person who files a return
198 under the federal income tax as an unmarried individual whose
199 federal adjusted gross income for such taxable year is less than fifty
200 thousand dollars, or as a married individual filing separately whose
201 federal adjusted gross income for such taxable year is less than fifty
202 thousand dollars, or for a husband and wife who file a return under
203 the federal income tax as married individuals filing jointly whose
204 federal adjusted gross income for such taxable year is less than sixty
205 thousand dollars or a person who files a return under the federal
206 income tax as a head of household whose federal adjusted gross
207 income for such taxable year is less than sixty thousand dollars, an
208 amount equal to the Social Security benefits includable for federal
209 income tax purposes; and (II) for a person who files a return under the
210 federal income tax as an unmarried individual whose federal adjusted
211 gross income for such taxable year is fifty thousand dollars or more, or
212 as a married individual filing separately whose federal adjusted gross
213 income for such taxable year is fifty thousand dollars or more, or for a
214 husband and wife who file a return under the federal income tax as
215 married individuals filing jointly whose federal adjusted gross income
216 from such taxable year is sixty thousand dollars or more or for a
217 person who files a return under the federal income tax as a head of
218 household whose federal adjusted gross income for such taxable year
219 is sixty thousand dollars or more, an amount equal to the difference

220 between the amount of Social Security benefits includable for federal
221 income tax purposes and the lesser of twenty-five per cent of the Social
222 Security benefits received during the taxable year, or twenty-five per
223 cent of the excess described in Section 86(b)(1) of the Internal Revenue
224 Code, (xi) to the extent properly includable in gross income for federal
225 income tax purposes, any amount rebated to a taxpayer pursuant to
226 section 12-746, (xii) to the extent properly includable in the gross
227 income for federal income tax purposes of a designated beneficiary,
228 any distribution to such beneficiary from any qualified state tuition
229 program, as defined in Section 529(b) of the Internal Revenue Code,
230 established and maintained by this state or any official, agency or
231 instrumentality of the state, (xiii) to the extent allowable under section
232 12-701a, contributions to accounts established pursuant to any
233 qualified state tuition program, as defined in Section 529(b) of the
234 Internal Revenue Code, established and maintained by this state or
235 any official, agency or instrumentality of the state, (xiv) to the extent
236 properly includable in gross income for federal income tax purposes,
237 the amount of any Holocaust victims' settlement payment received in
238 the taxable year by a Holocaust victim, (xv) to the extent properly
239 includable in gross income for federal income tax purposes of an
240 account holder, as defined in section 31-51ww, interest earned on
241 funds deposited in the individual development account, as defined in
242 section 31-51ww, of such account holder, (xvi) to the extent properly
243 includable in the gross income for federal income tax purposes of a
244 designated beneficiary, as defined in section 3-123aa, interest,
245 dividends or capital gains earned on contributions to accounts
246 established for the designated beneficiary pursuant to the Connecticut
247 Homecare Option Program for the Elderly established by sections 3-
248 123aa to 3-123ff, inclusive, (xvii) to the extent properly included in
249 gross income for federal income tax purposes, fifty per cent of the
250 income received from the United States government as retirement pay
251 for a retired member of (I) the Armed Forces of the United States, as
252 defined in Section 101 of Title 10 of the United States Code, or (II) the
253 National Guard, as defined in Section 101 of Title 10 of the United
254 States Code, (xviii) to the extent properly includable in gross income

255 for federal income tax purposes for the taxable year, any income from
 256 the discharge of indebtedness in connection with any reacquisition,
 257 after December 31, 2008, and before January 1, 2011, of an applicable
 258 debt instrument or instruments, as those terms are defined in Section
 259 108 of the Internal Revenue Code, as amended by Section 1231 of the
 260 American Recovery and Reinvestment Act of 2009, to the extent any
 261 such income was added to federal adjusted gross income pursuant to
 262 subparagraph (A)(x) of this subdivision in computing Connecticut
 263 adjusted gross income for a preceding taxable year; and (xix) to the
 264 extent not deductible in determining federal adjusted gross income,
 265 the amount of any contribution to a manufacturing reinvestment
 266 account established pursuant to section 32-9zz, as amended by this act,
 267 in the taxable year that such contribution is made.

268 (C) With respect to a person who is the beneficiary of a trust or
 269 estate, there shall be added or subtracted, as the case may be, from
 270 adjusted gross income such person's share, as determined under
 271 section 12-714, in the Connecticut fiduciary adjustment.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>July 1, 2014</i>	32-9zz(b)
Sec. 2	<i>July 1, 2014, and applicable to income years commencing on or after January 1, 2014</i>	12-213(a)(9)
Sec. 3	<i>July 1, 2014, and applicable to taxable years commencing on or after January 1, 2014</i>	12-701(a)(20)

CE *Joint Favorable Subst.*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 15 \$	FY 16 \$
Department of Revenue Services	GF - Potential Revenue Loss	20,100 to 27,000	10,050 to 13,500

Municipal Impact: None

Explanation

The bill alters the Manufacturing Reinvestment Account (MRA) program by: 1) reducing from 100 to 50 the cap on the number of participants, 2) increasing the maximum number of employees a participating manufacturer may employ, and 3) expanding the personal income and corporate tax exemption for qualified withdrawals from the account. This results in a potential revenue loss of \$20,100 to \$27,000 in FY 15 and \$10,050 to \$13,500 in FY 16.

The expansion of the exemption results in a potential revenue loss of \$20,100 (using an income tax rate of 6.7%) to \$27,000 (using a corporation business tax rate of 7.5% with a 20% surcharge) in FY 15 and \$10,050 to \$13,500 in FY 16.¹ The actual revenue loss is dependent on the amount of revenue currently deposited in the account and the timing and nature of any withdrawals.

Background

According to the Department of Economic and Community Development, there are currently three MRA program participants.

¹ The potential revenue loss is larger in FY 15 due to the possibility of up to \$600,000 in accumulated MRA deposits being withdrawn at once. This normalizes to a possible withdrawal of up to \$300,000 in FY 16 and annually thereafter.

Assuming that all three participants have made the maximum \$100,000 contribution and taken no withdrawals since income year 2012 there would be an estimated \$600,000 in the MRA account as of the effective date of the bill. Under current law, 50% of this amount, or \$300,000, would be exempt from taxation if withdrawn for qualified purposes; under the bill, the full amount, or \$600,000, in this account would be completely exempt from taxation if withdrawn for qualified purposes.

The Out Years

The provision of the bill expanding the tax exemption on withdrawals would result in a potential revenue loss of \$10,050 to \$13,500 in FY 17 and \$10,050 to \$11,250 in FY 18 and annually thereafter.

Additionally, to the extent that more than 50 manufacturers would participate in the MRA program in the future, the bill also precludes a future revenue loss of up to \$187,500 annually. The actual impact is dependent on the total number of manufacturers that would have participated in the program in the future and the timing, amount, and nature of deposits and withdrawals by any such manufacturer.

Finally, to the extent that increasing the maximum allowable number of employees per program participant results in additional companies participating in the program than would otherwise be eligible, the bill results in an uncertain future revenue loss. The magnitude and timing of the revenue loss is dependent on: 1) the degree to which otherwise eligible manufacturers with more than 50 employees would participate, and 2) the timing, amount, and nature of deposits and withdrawals made by any such manufacturer.

Sources: Department of Economic and Community Development

OLR Bill Analysis**sSB 232*****AN ACT CONCERNING THE MANUFACTURING REINVESTMENT ACCOUNT PROGRAM.*****SUMMARY:**

This bill (1) exempts from corporation and personal income taxes 100%, rather than 50%, of any withdrawal from a manufacturing reinvestment account (MRA) that is used for eligible purposes; (2) reduces from 100 to 50 the number of manufacturers that can participate; and (3) increases, from 50 to 150, the maximum number of employees a manufacturer may have to be eligible for the program. As under current law, 100% of any withdrawal from an MRA that is used for any ineligible purpose is considered taxable income.

The MRA program is designed to help small manufacturers fund capital investments and train their workforces. Under the program, an approved Connecticut manufacturer may establish an MRA in a Connecticut bank and deposit up to \$100,000 annually for up to five years. Taxes are deferred until funds are withdrawn, and the amount of taxes paid depends on whether the funds are used for eligible purposes. Eligible purposes include purchasing equipment for in-state facilities, training employees, or expanding facilities.

EFFECTIVE DATE: July 1, 2014, and applicable to income and taxable years starting on or after January 1, 2014

COMMITTEE ACTION

Commerce Committee

Joint Favorable Substitute

Yea 16 Nay 0 (03/11/2014)